PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ID #2970

ENERGY DIVISION **RESOLUTION G-3356**
DECEMBER 18, 2003

RESOLUTION

Resolution G-3356. Southern California Gas Company (SoCalGas) requests approval of its sharable earnings filings, which report SoCalGas' Performance-Based Ratemaking (PBR) Mechanism results for 2001 and 2002. Advice Letters 3167 and 3277 are approved, effective today.

By Advice Letter 3167 filed on July 1, 2002 and Advice Letter 3277 filed on July 10, 2003.

SUMMARY

This resolution approves SoCalGas' Advice Letters (AL) 3167 and 3277. Those ALs requests approval of SoCalGas' 2001 and 2002 PBR Mechanism sharable earnings results, SoCalGas' customer count adjustments, performance indicator results, Core Pricing Flexibility Program results, and Noncore Competitive Load Growth Opportunities program results for 2001 and 2002.

SoCalGas calculates that its actual rate of return (ROR) in 2001 was 10.80%, which was 131 basis points above its authorized ROR, resulting in $29.6 million of sharable earning. Of that amount, $14.0 million is allocated to SoCalGas' ratepayers. After adjustments for franchise fees and uncollectibles (FF&U) and tax benefits, SoCalGas' ratepayers will receive $17.5 million.

SoCalGas calculates that its actual rate of return (ROR) in 2002 was 9.99%, which was 50 basis points above its authorized ROR, resulting in $11.0 million of sharable earning. Of that amount, $4.1 million is allocated to SoCalGas' ratepayers. After adjustments for FF&U and tax benefits, SoCalGas' ratepayers will receive $4.9 million.

Under SoCalGas' PBR, adjustments are made to its authorized revenue requirement to reflect changes in the number of customers. The actual number of customers that SoCalGas provided service to in 2001 was 16,543 lower than the

amount that SoCalGas had earlier forecasted. SoCalGas' authorized revenue requirement, as a result, was decreased by $4.6 million on January 1, 2003, in order to reflect the actual number of customers serviced by SoCalGas in 2001.

The actual number of customers that SoCalGas provided service to in 2002 was 18,951 higher than SoCalGas' forecasted amount. SoCalGas' authorized revenue requirement, as a result, shall be increased by $5.4 million on January 1, 2004, in order to reflect the actual number of customers serviced by SoCalGas in 2002.

For 2001 and 2002, SoCalGas' authorized PBR revenue requirement shall also be increased by $167,094 in order to reflect the additional mobilehome park master meter conversions that occurred in SoCalGas' service territory.

SoCalGas reports that its 2001 and 2002 customer satisfaction and telephone response time results have exceeded the established targets it strives to meet under its PBR Mechanism, resulting in no performance penalties.

The employee safety measure for 2001 improved to an Occupational Safety and Health Administration (OSHA) frequency of 6.0 incidents per 200,000 hours worked by SoCalGas' employees. The employee safety results beat the established lowest deadband of 8.3 incidents for every 200,000 hours worked by SoCalGas employees, resulting in an $460,000 reward to SoCalGas' shareholders. In 2002, the employee safety measure further declined to 5.7 incidents per 200,00 hours, resulting in a reward of $520,000.

SoCalGas' Core Pricing Flexibility Program allows SoCalGas to offer optional tariffed rates and to negotiate discounted rates with its core customers. SoCalGas' shareholders are responsible for any reduction in core revenues that may occur as a result of tariffed and discounted rates, while revenue gains are shared between ratepayers and shareholders. The Core Pricing Flexibility Program produced incremental revenues of $378, 692 in 2001 and $903,980 in 2002, which are included in SoCalGas' net operating PBR revenues.

Incremental revenues associated with new noncore negotiated contracts that are part of a "California Red Team economic development effort are included in PBR revenues. In 2001 and 2002, these revenues amounted to $43,176 and $128,149, respectively.

BACKGROUND

The Commission adopted SoCalGas' PBR in Decision (D.)97-07-054, establishing a mechanism that provides SoCalGas' management with the incentive to run its system more efficiently while providing safe, reliable service to SoCalGas' customers. D. 97-07-054 also required that SoCalGas file an annual AL by July 10th of each year summarizing the prior year's PBR performance results.

SoCalGas' PBR mechanism uses a revenue-indexing formula that calculates SoCalGas' authorized base rate revenue requirement for a PBR calendar year. SoCalGas' ratepayers benefit from the PBR mechanism's revenue sharing scheme if SoCalGas' ROR exceeds the revenue sharing tiers set above its authorized ROR. When SoCalGas' actual ROR falls below its authorized ROR, ratepayers do not share any of these "losses."

SoCalGas' PBR mechanism also incorporates performance standards associated with SoCalGas' customer satisfaction, service quality, and employee safety performance, along with financial incentives to meet these performance standards.

SoCalGas filed ALs 3167 and 3277 detailing SoCalGas' 2001 and 2002 PBR performance results, its 2001 and 2002 customer count adjustments, the 2001 and 2002 Core Pricing Flexibility Program results, and the 2001 and 2002 Noncore Competitive Load Growth Opportunities results, in compliance with D. 97-07-054.

NOTICE

Notice of ALs 3167 and 3277 was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

No protests were received on AL 3167 or AL 3277.

DISCUSSION

Revenue Sharing

SoCalGas' revenue sharing scheme allocates Net Operating Income (NOI) that exceeds its authorized return between shareholders and ratepayers according to a set of sharing tiers that awards shareholders with an increasing portion of the earnings as the actual ROR increases above the authorized ROR. SoCalGas' shareholders are at risk for all of the recorded NOI associated with an actual ROR that is below the authorized ROR.

SoCalGas' actual ROR of 10.80% in 2001 exceeded its authorized ROR by 131 basis points. (SoCalGas' authorized ROR of 9.49% was adopted in D. 96-11-060 and has been effective during the time SoCalGas' PBR mechanism has been in operation.) In 2002, SoCalGas' actual ROR of 9.99% exceeded its authorized ROR by 50 basis points.

The SoCalGas PBR mechanism's revenue sharing scheme results in a shareholder reward of $15,572,220 and a ratepayer reward of $14,040,782 in 2001. After the ratepayers' reward is grossed-up in order to incorporate the sharing of tax benefits and FF&U, the ratepayers' reward portion increases to $17,522,000.

For 2002, the shareholder reward is $6,921,066 and the ratepayer reward is $4,101,887. After the ratepayers' reward is grossed-up, it increases to $4,860,000.

Customer Count Adjustment

SoCalGas' forecasted customer count is multiplied by the revenue requirement per customer that results from the PBR indexing formula in order to update SoCalGas' revenue requirement at the beginning of each year. This revenue requirement is later adjusted based on the actual number of customers that received service from SoCalGas.

With AL 2964 filed on October 2, 2000, SoCalGas forecasted that it would provide natural gas service to 5,082,990 customers in 2001. With AL 3167, SoCalGas updated the actual number of customers it provided service to in 2001, based on the average recorded number of active meters in SoCalGas' service territory in 2001. The average recorded number of active meters in SoCalGas' service territory in 2001 was 5,066,447, or 16,543 lower than forecast. SoCalGas' revenue requirement decreased by $4.6 million as a result of its customer count adjustment.

SoCalGas filed AL 3070 on October 1, 2001, forecasting that it would provide natural gas service to 5,113,472 customers in 2002. With AL 3277, SoCalGas stated the actual number of customers it provided service to in 2002 was 5,132,423, or 18,951 higher than forecast. SoCalGas' revenue requirement increased by $5.4 million as a result of its customer count adjustment.

Mobile Master Meter Conversion Allowance

Assembly Bill (AB) 622 permitted the transfer of a mobilehome park's master meter operational responsibilities from the owner of the mobilehome park to the natural gas company whose service territory encompasses the mobilehome park.

In 2001, SoCalGas gained 136 meters as a result of taking over the operational responsibilities of mobilehome parks' master meters. These 136 meters were added to the 833 meters from prior conversions through 2000, per AL 3033, filed on July 10, 2001, totaling 969 additional meters. These master meter conversions were not included in SoCalGas' 2001 meter true-up described above. These conversions result in base margin customer allowances of $172.44 per year per meter, based on the authorized avoided costs of submetering credits. This increases SoCalGas' authorized PBR revenue requirement by $167,094 (969 meters multiplied by $172.44).

In 2002, SoCalGas gained no new individual meters from AB622-mandated takeover of converted mobilehome park facilities. Thus, the master meter conversion total remained at 969 meters, and the addition to PBR authorized revenue requirement remained at $167,094.

Customer Satisfaction

SoCalGas' PBR Mechanism includes performance targets for customer satisfaction based on SoCalGas' average performance in 1994 through 1996.

These performance targets are associated with customer satisfaction survey results pertaining to SoCalGas' telephone service representatives, appointment scheduling practices, field service representatives, and on-time arrival for service representatives. Performance results are gathered from customers that respond to a telephone survey (called The Residential Transaction Program) conducted by a third party.

Overall survey results are provided to SoCalGas on a monthly basis. Quota targets for the number of customers surveyed by region and transaction type are maintained each quarter. SoCalGas' quota target for the annual number of residential customer surveys is 30,000.

A reward is not provided to SoCalGas if its customer satisfaction performance exceeds the established targets. SoCalGas is penalized if its performance falls below the deadband associated with these targets. In 2001 and 2002, SoCalGas' performance exceeded its targets in all four service areas.

Telephone Response Time

SoCalGas' PBR Mechanism includes a telephone response time performance standard, which requires 80% of regular calls to be answered within 60 seconds, and 90% of emergency calls to be answered within 20 seconds. SoCalGas is assessed a $20,000 penalty for each 0.1 percent decline in performance below each performance standard.

SoCalGas reports that in 2001 it was able to answer 83.7% of all regular telephone calls in less than 60 seconds and 93.1% of all emergency telephone calls in less than 20 seconds. In 2002, SoCalGas reports that it was able to answer 84.1% of all regular telephone calls in less than 60 seconds and 93.6% of all emergency telephone calls in less than 20 seconds.

SoCalGas' 2001 and 2002 telephone response rate performance does not result in penalties being assessed on its shareholders.

Employee Safety

The OSHA frequency standard is calculated by multiplying the number of annual recordable injuries by 200,000 (100 employees at 2,000 hours/year) and dividing this figure by the total number of OSHA working hours.

The Employee Safety benchmark is set at an OSHA frequency of 9.3 with a deadband of plus or minus 1.0. For each tenth of a point SoCalGas scores above or below the deadband, it is penalized/rewarded $20,000.

SoCalGas' performance resulted in an OSHA frequency of 6.0, and a reward of $460,000 in 2001. In 2002, SoCalGas reported an OSHA frequency of 5.7, which resulted in a reward of $520,000.

The employee safety performance rewards have been calculated correctly.

Core Pricing Flexibility Adjustment

Under the Core Pricing Flexibility Program, SoCalGas may offer optional tariff rates and negotiate discounted tariff rates with new or existing core customers for the purpose of load growth and load retention.

The Commission authorized a Core Fixed Cost Account (CFCA) adjustment mechanism in order to protect core customers from the risk of revenue shortfalls associated with optional tariff rates and negotiated discounted tariff rates. This adjustment mechanism calculates revenues that represent base revenues which would have been credited to the CFCA in the absence of optional or negotiated tariff rates.

SoCalGas' Core Pricing Flexibility Program produced incremental revenues of $378,692 in 2001 and $903,980 in 2002. These amounts were included in SoCalGas' net PBR operating revenues.

Noncore Competitive Load Growth Opportunities

The Commission's decision in SoCalGas' last Biennial Cost Allocation Proceeding, D.00-04-060, authorized revenue treatment for certain new negotiated contracts with noncore customers. These contracts are entered into as part of a "California Red Team" economic development effort or where SoCalGas Rule 38 shareholder funding has been used. These contracts produced incremental revenues in 2001 and 2002. These revenues are added to PBR operating revenues. In 2001 and 2002, the program produced additional revenues of $43,176 and $128,149, respectively.

Evaluation of SoCalGas' Overall PBR Performance

SoCalGas' authorized ROR under its PBR mechanism is 9.49%. In 1998, the first year that SoCalGas' PBR mechanism was implemented, SoCalGas' actual ROR was 8.50%. This resulted in no revenue sharing. However, in 1999, SoCalGas' SoCalGas' ROR in 2001 and 2002 increased to 10.80% and 9.99%, respectively.

SoCalGas' five-year PBR performance results have resulted in significant sharable earnings, with roughly $55 million going to ratepayers.

SoCalGas has been able to exceed its authorized ROR from 1999 through 2002 despite the relatively high productivity factors that are included in its PBR update formula, compared to the factors adopted for San Diego Gas & Electric (SDG&E) and Southern California Edison (Edison). The productivity factors used in the SoCalGas update formula were 2.2% in 1999, 2.3% in 2000, 2.4% in 2001, and 2.5% in 2003. SDG&E incorporated productivity factors of only 1.08%, 1.23% and 1.38% for its gas department in its 2000, 2001 and 2002 update formulas.[1] Edison has incorporated a productivity factor of 1.6% in its PBR update formulas for those same years.[2]

Despite lower productivity factors, neither Edison nor SDG&E have achieved any positive ratepayer revenue sharing under their current PBRs during the past five years. In fact, under Edison's PBR, Edison is seeking ratepayer compensation to Edison by about $40 million for its relatively poor financial performance over the last couple of years.

SoCalGas' PBR mechanism provides performance indicator rewards only for its employee safety performance.[3] Still, SoCalGas met or exceeded all of its service

[1] SDG&E's current PBR was implemented in 1999; SoCalGas' PBR was implemented in 1998.

[2] The PBR update formula is commonly referred to as the "CPI-X" formula, where CPI represents the annual inflation factor and X indicates the adopted productivity factor. This formula is used to set the next year's distribution rates or revenue requirement.

[3] SoCalGas is levied penalties if it does not meet the performance targets associated with customer satisfaction pertaining to its telephone service representatives, appointment scheduling practices, field service representatives, and on-time arrival for service representatives, or its telephone response time target. Rewards are not given to SoCalGas if its customer satisfaction or telephone response time exceeds the established targets.

quality benchmarks in 1998 through 2002. In addition, the level of SoCalGas potential rewards for the employee safety indicator is much smaller than the potential rewards for employee health and safety employee safety under SDG&E's and Edison's respective PBRs. SoCalGas has received a performance indicator reward total of only $1.4 million for the past five years.

In contrast, over the past four years, SDG&E has received an employee safety performance reward of approximately $10.5 million dollars, with far fewer employees than SoCalGas. SDG&E also has received additional performance rewards of about $2.2 million for its telephone response time indicator. Finally, SDG&E has at least the potential for receiving rewards under its customer satisfaction indicator. (SDG&E also receives significant rewards under its electric reliability performance indicators, amounting to over $27.1 million over the last four years.)

Similarly, Edison has reported a five-year reward total of $25 million from 1998 through 2002 for exceeding its respective employee safety target, and $38 million for exceeding its customer satisfaction targets. (Like SDG&E, Edison also receives significant electric reliability performance rewards, totaling $13 million over the last five years.)

In summary, SoCalGas' ratepayers have received revenue sharing benefits in four out of the five years that SoCalGas' PBR Mechanism has been effective. SoCalGas' ratepayers have also benefited from above standard service quality provided by SoCalGas, while paying relatively small rewards for this above standard service quality when compared to the rewards that SDG&E ratepayers and Edison ratepayers have had to pay for similar service performance. SoCalGas actual 2001 and 2002 ROR has exceeded SDG&E's and Edison's respective actual ROR, in spite of the fact that SoCalGas incorporates a relatively high productivity factor in its PBR update formula.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments.

FINDINGS

1. SoCalGas filed Advice Letter 3167 on July 1, 2002 to request approval of its 2001 PBR shareable earnings report.

2. SoCalGas filed Advice Letter 3277 on July 10, 2003 to request approval of its 2002 PBR shareable earnings report.

3. There were no protests against AL 3167 or AL 3277.

4. SoCalGas' actual ROR of 10.80% in 2001 exceeded its authorized ROR by 131 basis points.

5. In 2002, SoCalGas' actual ROR of 9.99% exceeded its authorized ROR by 50 basis points.

6. The average recorded number of active meters in SoCalGas' service territory in 2001 was 5,066,447, or 16,543 lower than forecast. SoCalGas' revenue requirement decreased by $4.6 million as a result of its customer count adjustment.

7. The actual number of customers SoCalGas provided service to in 2002 was 5,132,423, or 18,951 higher than forecast. SoCalGas' revenue requirement increased by $5.4 million as a result of its customer count adjustment.

8. In 2001, SoCalGas gained 136 meters as a result of taking over the operational responsibilities of mobilehome parks' master meters. In 2002, SoCalGas gained no new individual meters from AB622-mandated takeover of converted mobilehome park facilities. SoCalGas' authorized PBR revenue requirement was increased by $167,094 in 2001 and 2002 due to mobilehome park meter conversions.

9. In 2001 and 2002, SoCalGas' performance exceeded its targets in all four of the customer satisfaction service areas, resulting in no penalty.

10. SoCalGas' 2001 and 2002 telephone response rate performance exceeded the established response benchmark rate. As a result, no penalties will be assessed for this performance indicator.

11. SoCalGas' performance resulted in an OSHA frequency of 6.0, and a reward of $460,000 in 2001. In 2002, SoCalGas reported an OSHA frequency of 5.7, which resulted in a reward of $520,000.

12. SoCalGas' Core Pricing Flexibility Program produced incremental revenues of $378,692 in 2001 and $903,980 in 2002. These amounts were included in SoCalGas' net PBR operating revenues.

13. SoCalGas' Noncore Competitive Load Growth Opportunities program produced additional revenues in 2001 and 2002 of $43,176 and $128,149, respectively. These revenues are added to PBR operating revenues.

14. SoCalGas' ratepayers have received revenue sharing benefits in four out of the five years that SoCalGas' PBR Mechanism has been effective, while SDG&E and Edison ratepayers have not received revenue sharing benefits in recent years.

15. SoCalGas' ratepayers have also benefited from above standard service quality provided by SoCalGas, while paying relatively small rewards for this above standard service quality when compared to the rewards that SDG&E ratepayers and Edison ratepayers have had to pay for similar service performance.

16. SoCalGas actual 2001 and 2002 ROR exceeded SDG&E's and Edison's respective actual ROR, in spite of the fact that SoCalGas incorporates a relatively high productivity factor in its PBR update formula.

17. SoCalGas AL 3167 and AL3277 should be approved with an effective date of today.

THERETO

1. SoCalGas Advice Letters 3167 and 3277 are approved.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on December 18, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director